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Analysis of the Financial Condition West Java Provincial Government, Indonesia

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Abstract

The purpose of the study is to assess the financial condition of 18 districts and 9 municipals in West Java Province. Assessing the financial condition was based on a 10 (ten) point financial ratio model developed by Kenneth Brown. Data on financial ratios for the 2013-2016 period was obtained from audited financial reports published by the west java provincial supreme auditor. Analysis of financial ratios was based on descriptive statistics and conducting Independent t-Test analysis. Research results showed that both district and municipal governments in West Java Province have a good financial condition. However, the performance of financial condition score for district governments shows a downward trend. In general, there is significant difference in the financial condition of district governments and municipal governments. In general, municipal governments showed better financial condition than district governments.

Keywords: *district, financial condition, financial ratio, local government, municipal*

INTRODUCTION

Public sector management has been undergoing significant change over the past 30 years. (Doumpos & Cohen, 2014). Stakeholders are constantly demanding better public services and higher efficiency and effectiveness from the government (Padovani, Rossi, & Orelli, 2010). Indonesia has been undergoing fundamental transitions in a number of areas simultaneously, including political, economic and fiscal (The World Bank, 2005). Since the transition from the new order government to the reformation era in 1998, public sector management in Indonesia has experienced two monumental events inter alia, implementation of local government autonomy and accrual-based accounting policies. Since 1999, the Indonesian government has been implementing local government autonomy since 1999 (Ritonga, 2014b), which has led to not only the transfer of administrative power from the central government to local governments (Rusmin, Astami, & Scully, 2014), but also delegation of fiscal authority (Ritonga, Clark, & Wickremasinghe, 2012). Nonetheless, good intentions behind the decentralization policy in Indonesia, did not mean that its implementation was devoid of problems (Arif & Maksum, 2017). Assessing local government financial condition should serve as a good indicator of the impact that decentralization has had on local government performance (Cohen, Doumpos, Neofytou, & Zopounidis, 2012). Under the decentralization policy, the central government devolved some of the authority to manage and administer revenues, expenditures, and finances to run the administrative functions and delivery of public services (Hasthoro, Sarnowo, & Nurwiyanta, 2016; Nursetyautami, 2013; Sijabat, 2016). It should also be noted, however, that decentralization has increased dependency of local governments on the central government in financing its functions. This is contrary to one of the goals of decentralization, which is strengthening financial independence. In 2003, the Indonesian government introduced accrual based accounting in government financial reporting, abandoning cash based accounting. The implication of the change is that government financial reports is based on when the transaction occurs irrespective of whether it involves change of cash or otherwise what is applicable in the private sector.

Fiscal decentralization in Indonesia is a crucial issue due to the fact that since its implementation, local governments manage about a third of total public expenditures, a figure that is expected to increase in future (The World Bank, 2005). From the vantage point of government management, the status of financial condition for local governments requires serious local government attention. Financial condition refers to the ability of local governments ensure that local government revenue are in equilibrium with expenditures, without adversely affecting the delivery of public services. Financial condition covers a wide range dimensions, making it complex to understand (Kim & Ryu, 2017). However, it is important to note at the outset that financial condition and financial health are often used interchangeably (Kaldani et al., 2016; Ramsey, 2013). That said, financial condition is the terminology that is most widely used (Casal, Buch Gómez, & Liste, 2014). The definition of financial condition used is the ability of the local government to fulfill financial obligations in a timely manner, while at the same time providing services to the stakeholders (Ritonga et al., 2012).

Regional autonomy in Indonesia and attendant fiscal decentralization, has the implication that local government face the possibility of encountering financial distress during an economic downturn. To that end, assessing local government financial condition is very important in gauging performance. Nonetheless, financial health is not the only indicator of local government performance, it provides a gauge of the ability of the local government to provide quality public services (Huang & Ho, 2013). To ensure the provision of public services in a sustainable manner, local government officials should have a glimpse and understanding of the status of the current financial condition (Kim & Ryu, 2017). Moreover, understanding and assessing financial condition of local governments is also important for local governments to prepare for future scenarios such as the likelihood of an economic crisis (Nursetyautami, 2013). Increasing economic

Table 1. Financial Ratio Calculation

Ratio	Formula	Ratio Categorization
1	(Total Revenues)/(Total Population)	Revenue Ratio
2	(Total General Fund Revenues Own Sources)/(Total General Revenues)	Revenue Ratio
3	(General Fund Sources from other Funds)/ (Total General Funds Sources)	Revenue Ratio
4	(Operating Expenditures)/ (Total Expenditures)	Expenditure Ratio
5	(Total Revenues)/ (Total Expenditures)	Expenditure Ratio
6	(Unreserved General Fund Balance)/ (Total General Revenues)	Operation Position Ratio
7	(Total General Fund Cash and Investment)/ (Total General Fund Liabilities)	Debt Structure Ratio
8	(General Fund Liabilities)/ (Total General Fund Revenues)	Debt Structure Ratio
9	(Debt Services)/ (Total Revenues)	Debt Structure Ratio
10	(Direct Long—Term Debt)/ (Population)	Debt Structure Ratio

Source: Ken W Brown's Financial Condition Model (1993)

interdependency among nations and economies, makes local government budgets in both developed and developing countries highly susceptible to fluctuations in global economic activities (Paulais, 2009). Thus, ensuring strong financial sustainability for local governments is essential for sustainable delivery of various and important local government functions (Bolívar, Galera, Muñoz, & Subirés, 2016).

To assess financial sustainability of local governments, local government managers require financial information. Governmental financial report, specifically, the income statement, contains key information that can be used to measure the ability of the government to sustain the level of public services delivery over time (Rodríguez Bolívar et al., 2016). Analysis of the financial condition of local governments is necessary as it an important part of the evaluation process of the current financial performance as well as provides a guidance in planning for the future. To anticipate potential economic turbulence in future and its impact on public sector organizations, local government managers are required to have proper and appropriate financial management analytical tools (Hrůza, 2015). Financial condition analysis is one such fundamental tool that can assess financial past performance as one of the ways to enable local governments to develop strategies necessary to tackle threats in the future. In any case, expectations of local government stakeholders to receive decent public services despite budget constraints that local governments face, makes assessment of local government financial condition for public sector manager urgent and relevant (Halim, Moi, & Baswir, 2016).

In light of the turbulent external environment that organizations have faced over the last decades, assessing the financial condition has become vitally important for both private and public organizations (Hrůza, 2015). Financial condition analysis provides valuable information on past financial performance as well as serving as guidance for future financial management decision making for the government (Dinapoli, 2008). Financial condition information provides a long-term picture of the financial position and it helps to inform financial decisions and better planning in future (Dinapoli, 2008). By monitoring the financial condition of government organizations, the government has the opportunity to take necessary action to ensure that expenditure needs do not exceed revenue sources, which guarantees sustainable delivery of public services and sound public financial management (Dinapoli, 2008). Furthermore, local govern-

Table 2. Financial Ratio Scoring

Financial Ratio Quartile	Point
Quartile 1 (0-25%)	-1
Quartile 2 (>25 – 50%)	0
Quartile 3 (>50% - 75%)	+1
Quartile 4 (>75%)	+2

Source: Ken W Brown's Financial Condition Model (1993)

ment can use financial condition information to efficiently and effectively utilize available resources to meet public needs (Natrini & Ritonga, 2017). Understanding the financial condition of local governments is so important because it gauges the ability of the government to deliver services that constitute its obligations to the public including health, education, and basic infrastructure (Huang & Ho, 2013; Ritonga, 2014a).

Extant literature has a wealth of financial condition models. However, Brown's 10 -points financial ratio financial condition model (Maher & Nollenberger, 2009), conceived and developed by Brown to measure fiscal health is one of most popular, and widely used, as well as easy to understand (Kaldani et al., 2016; McDonald, 2017). To assess the financial condition of local governments, governments officials require a simple and effective model that has the ability to generate comparable results/indicators (Brown, 1993). The basic idea behind Brown's financial condition model is its focus on measuring liquidity and solvency of the organization (Huang & Ho, 2013; McDonald, 2017; Ritonga et al., 2012). The model essentially assesses 4 (four) financial fundamental factors inter alia revenue ratio, expenditure ratio, operation position ratio and debt structure ratio. Initially, Brown's financial condition measurement model used 10-point financial ratios, and was developed for use by local governments that have population's density of fewer than 100,000 citizens. However, with time, the method has been used to measure financial condition ratios of local governments with larger populations than 100,000 citizens. The 10-point financial ratio, which were Brown developed provide an objective financial condition of an organization based on scoring of financial condition indicators. Results of such scoring, help local governments in making decisions that relate to financial sustainability. Moreover, Brown's 10-point financial condition model is superior in terms of its comparative ability and its simplicity (Maher & Nollenberger, 2009).

In contrast to financial conditions in private sector organizations, research financial conditions in the public sector organizations is relatively new (Kloha et al., 2005; Ritonga, 2014b). Consequently, research on the financial condition of local governments is still few in number (Padovani et al., 2010; Padovani & Scorsone, 2011), the same applies to Indonesia (Ritonga et al., 2012). This is evidenced by the limited number of previous literature on financial condition of local governments available in scientific journals database (Jones & Walker, 2007). Meanwhile, theoretically, literature on the financial condition of government organization focuses too much on conceptual models, and pays little attention to applied research on the implementation and practices of conducting financial condition assessment (McDonald, 2017). Research on assessing financial health or financial condition of government organizations, has generally focused on the development of conceptual measures (Maher & Nollenberger, 2009; The Civic Federation, 2013). One of the research on financial condition in Indonesia, attributable to Natrini and Ritonga (2017). Natrini and Ritonga (2017) conducted research on some districts and municipalities on Java Island and Bali during 2013-2014. To that end, the study is a pioneer in terms of effort to understand the financial condition of local governments in Indonesia. However, the re-

Table 3. Categorization of Financial Condition Predicate

Financial Condition Score	Financial Condition Predicate
10 or more	Excellent
5 – 9	Good
1 – 4	Average
0 – (- 4)	Worst
-5 or less	The Worst

Source: Ken W Brown's Financial Condition Model (1993)

sults of the study only went as far as generating raw information on the financial condition of districts and municipalities studied for a certain period of time. The implication is that, there is still lack of information on the progressive development of financial condition for many local governments in Indonesia for a sufficiently long period. It is that gap that this research tried to fill.

Needless to say, one of the components of the local government autonomy in Indonesia was fiscal decentralization. Since the law came into force, the Indonesia government transfers about 30 percent of the total national budget to local governments through the decentralization fund (Ritonga, 2014b). Theoretically, the motivation for conferring local government autonomy was to increase budget efficiency and effectiveness. The premise is that public sector managers at the local government level have a better understanding of local conditions than central government officials. Consequently, decentralization policy should lead to improvement in budget allocation. However, since the onset of the implementation of local government autonomy in Indonesia, the understanding of local government officials about financial condition of their offices has been poor and to a large extent, remains, that way. This is largely because of the fact that financial statements of most local governments have not been subjected to auditing (Rusmin et al., 2014). Local government officials have largely limited information exposure of the state financial condition, to central government officials. This makes efforts to understand the progress and current state of local government financial condition is both urgent and relevant.

The implementation of accrual-based accounting in Indonesia has the consequence that all government agencies including ministries, provinces, municipalities and districts are required to prepare financial statements on the basis of non-cash accounting approach (accrual based accounting) that include the balance sheet, an actual budget, change in equity, change in surplus budget balance, operating and cash flow and notes (Indonesia Government Regulation 71/2010, 2010). Indonesia Supreme Audit Board (SAB) conducts auditing of local government financial statements to determine whether or not reporting is in compliance with Indonesia Government Accounting Standards (Indonesia Act 15/2004, 2004). However, audited financial statements that are published by SAB do not have sufficient inform that stakeholders need to determine financial condition/financial health of local governments (Ritonga, 2014a). Thus, despite the fact that local government prepare local government reports in accordance with accrual based accounting standards and are audited by external government auditors, stakeholders still face difficulties in using information contained such statements to determine the status of their financial condition (Ritonga et al., 2012).

By using Brown's financial condition measurement model, the objectives of this research is to determine the financial condition score, status, trend, and compare, financial condition of district/ municipal governments in East Java province. Practically, the aim of the study is to enhance understanding of the method of calculating financial condition using Brown's model. Results of this study, are expected to provide valuable in-

Table 4. Total Score of Financial Condition (FC) - District

No	District	2013		2014		2015		2016		Average FC Score
		Score	FC	Score	FC	Score	FC	Score	FC	
1	Bogor	4	Average	4	Average	5	Good	5	Good	4.67
2	Sukabumi	5	Good	5	Good	2	Average	5	Good	4.00
3	Cianjur	4	Average	5	Good	5	Good	5	Good	5.00
4	Bandung	7	Good	8	Good	8	Good	9	Good	8.33
5	Garut	8	Good	8	Good	5	Good	5	Good	6.00
6	Tasikmalaya	5	Good	5	Good	5	Good	5	Good	5.00
7	Ciamis	6	Good	8	Good	8	Good	5	Good	7.00
8	Kuningan	5	Good	5	Good	5	Good	4	Average	4.67
9	Cirebon	5	Good	5	Good	5	Good	5	Good	5.00
10	Majalengka	5	Good	4	Average	5	Good	5	Good	4.67
11	Sumedang	5	Good	8	Good	5	Good	2	Average	5.00
12	Indramayu	5	Good	5	Good	5	Good	5	Good	5.00
13	Subang	5	Good	5	Good	5	Good	5	Good	5.00
14	Purwakarta	7	Good	8	Good	5	Good	5	Good	6.00
15	Karawang	5	Good	5	Good	5	Good	5	Good	5.00
16	Bekasi	4	Average	4	Average	5	Good	5	Good	4.67
17	Bandung Barat	5	Good	5	Good	5	Good	5	Good	5.00
18	Pangandaran	4	Average	5	Good	5	Good	5	Good	5.00
	Average	5..22		5..67		5..17		5.00		

Source: Data Analysis

formation about the current state of financial condition for public sector managers to serve as basis for decision making in the future. Meanwhile, the importance of study results, from the academic standpoint, is enriching literature in the field public sector financial management and vital material for comparative studies between the performance of local governments in Indonesia and other countries.

METHODS

The research was based on a case study approach. This is because the main objective is to understand the status and trend of financial condition for certain local governments in one of the provinces in Indonesia. A case study approach refers to a research strategy that focuses on collecting detailed information about a specific object, event or activity in a particular unit or organization (Sekaran & Bougie, 2016). Dis-municipal governments in West Java Province, were the unit(s) of analysis in this study. Meanwhile the time horizon of study of this study was longitudinal covering the period between 2013 and 2016.

The study used secondary data that was obtained from audited local government financial reports. Sources of data were collected from the regional supreme auditor of West Java Province. Population in the study is all districts and municipals in West Java Province. Total samples were chosen for this study is 18 districts and 9 municipals.

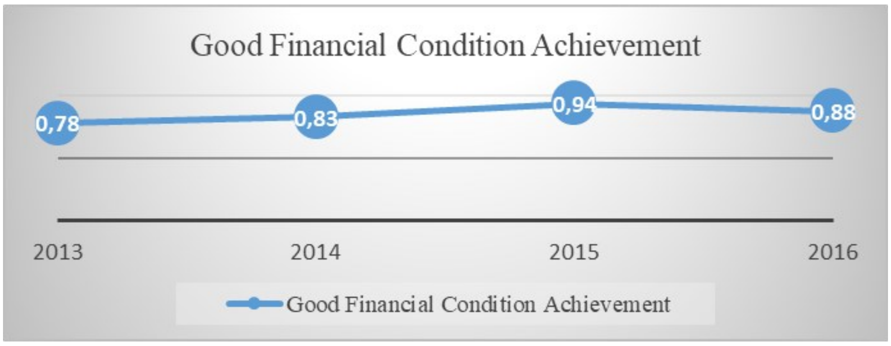

Figure 1. The Trend of the Performance of the Financial Condition of District Government in West Java, 2013-2016

Source: Data Analysis

The study employed a single variable as the focus of the investigation, which is the financial condition of district/municipal governments in West Java Province. The calculation of the financial condition of local governments was based on 10 financial ratios (Brown, 1993). Table 1 shows the approach used in calculating the 10 ratios.

Based on Brown's financial condition model, financial ratios of local governments were classified into 4 (four) quartiles. Belonging to each quartile influences has implication for the point awarded in calculating the total financial condition score. Table 2 presents the details of the classification and the point awarding system. Based on Brown's financial condition model, the maximum financial condition score is 20 points, while the minimum score is set at -10 point (Kloha et al., 2005). The total score of financial ratios determines the financial condition of the local government. Brown's financial condition model classifies financial condition into 5 predicate categorizations, namely excellent, good, average, worse, and the worst. Table 3 presents details on financial condition predicates.

A descriptive statistics approach was used to determine the total financial condition score and justification for the financial condition. To depict the trend of financial condition overtime, a graph was used, which was supplemented by trend analysis. Meanwhile, Independent t-Test was used to analyze differences in financial condition between districts and municipalities in West Java Province.

FINDINGS AND DISCUSSION

Financial condition - District Governments

There are eighteen districts in West Java Province and a summary of their financial condition is presented in Table 4. Based on data for 2013- 2016 period, Bandung district had the highest financial condition score (8,33 / Good), while Sukabumi district has the lowest financial condition score (4,00 / Average). In 2013, 14 districts (78%) achieved good predicate, while 4 districts (22%) registered average performance. In the following year, 2014, the financial condition score registers a slight increase. In total, 15 districts (83%) achieved good predicate, while 3 districts (17%) registered average predicate. Meanwhile, results for 2015, districts in West Java Province recorded the best financial condition performance. In total, 17 districts (94%) achieved good financial condition predicate and only 1 district (6%) registered an average financial condition predicate. However, in 2016, the financial condition experiences a slight decrease, with 16 districts (88%) achieving good performance predicate, while 2 districts (12%) recorded average financial condition predicate. To that end, financial condition performance of district governments showed an upward trend during 2013 – 2016 period. This is reflected in the financial ratio of dis-

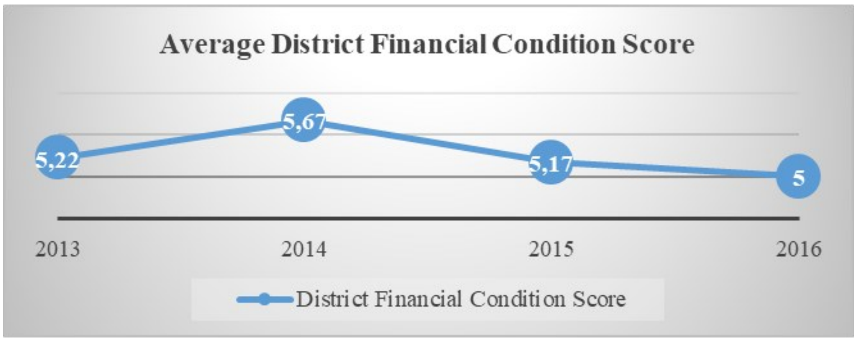

Figure 2. The Trend of the District's Average Financial Condition Score

Source: Data Analysis

tricts that shows steady improvement every year. Figure 1, depicts the improvement in the financial condition achieved by districts in West Java Province.

Nonetheless, an upward trend in financial condition performance by district government, still fall short of maximum attainable. This is reflected in the financial scores district government achieved during 2013-2016 period, with no single district in West Java succeeding in achieving excellent predicate. Moreover, while in terms of number of districts that achieved good financial condition performance, there is an upward trend during the period of observation, quality wise, a decline is clearly evident. On average, the financial condition score declines during 2013-2016 period as Figure 2 shows.

While the financial condition score for 18 district governments in 2014 increased by 0.45 point, compared with the score for the previous year, the average increase declines during the 2014 – 2016 period, which shows a decline. It indicates there is an anomaly between a total number of districts that obtained good financial condition predicate and average district financial condition score. The anomaly implies that financial condition improvement from period 2013 – 2016 (good financial condition achievement) of districts in West Java Province is not in line with the improvement of the quality of financial condition, The changes of the district that previously obtained average financial condition predicate to upper financial condition predicate may explain the increasing trend of the good financial condition, However, while districts that registered good performance in general maintained it, the score attained showed a decline over time.

In general, the financial condition of district governments in West Java Province was in the good predicate category during 2013-2016 period. To that end, financial condition performance of district governments shows an upward trend during 2013 – 2016 period. This is reflected in the financial ratio of districts that shows steady improvement every year. The average financial condition score falls within the 5- 9 range for four consecutive years. That said, financial condition performance is still minimal given the fact that based on Brown's financial condition classification, a range of between 5 and 9 falls under the marginally good category.

Financial condition - Municipal Local Government

During 2013-2014, assessment of financial condition in West Java showed that Cimahi municipal had the highest score. Cimahi municipal attained a score of 9 points, which is 1 point lower than the points needed to be achieve the excellent financial condition predicate. Meanwhile, the worst financial condition score achievers were Bandung and Banjar municipals, which obtained an average score of 5.00, which is the minimum score required to be classified as good financial condition. In 2013, 8 municipals achieved good financial condition predicate (89%) and 1 municipal obtained average financial condition predicate (11%). In the following year, in 2014, the achievement of the good financial condition was identical with the previous year. In 2015 and 2016, all

Table 5. Total Score of Financial Condition - Municipal

No	Municipal	2013		2014		2015		2016		Average FC Score
		Score	FC	Score	FC	Score	FC	Score	FC	
1	Bogor	7	Good	7	Good	8	Good	8	Good	7.5
2	Sukabumi	5	Good	5	Good	6	Good	9	Good	6.3
3	Bandung	5	Good	5	Good	5	Good	5	Good	5.0
4	Cirebon	9	Good	9	Good	6	Good	6	Good	7.5
5	Bekasi	8	Good	8	Good	9	Good	9	Good	8.5
6	Depok	4	Average	4	Average	5	Good	8	Good	5.3
7	Cimahi	9	Good	9	Good	9	Good	9	Good	9.0
8	Tasikmalaya	6	Good	5	Good	5	Good	5	Good	5.3
9	Banjar	5	Good	5	Good	5	Good	5	Good	5.0
	Average	6.44		6.33		6.44		7.11		

Source: Data Analysis

municipals (100%) in West Java Province obtained good financial condition predicate.

In other words, the number of municipalities that obtain good financial condition predicate increases every year. Thus, considering the number of municipals that have succeeded to attain good financial condition predicate, it can be concluded that municipal governments in West Java Province had sound financial performance during 2013-2016 period (Figure 3).

In addition, the financial performance of municipal governments in West Java Province showed an increase every year. It can be identified by its average financial score that shows improvement each year. The trend of the average financial condition score during 2013-2016 is shown in figure 4. In 2016, municipal governments in West Java registered the highest financial condition score, while worst performance came in 2014. However, even though financial performance shows an upward trend, both quantitatively and qualitatively, its level is limited to good financial condition predicate. Apparently, municipal governments still face difficulties to elevate the financial performance from good to excellent predicate.

Individually, of all the district/ municipal governments in West Java, only Cimahi and Bekasi municipalities achieved an average financial condition score, which was close to the excellent predicate (See Table 5). Thus, based on financial condition results, the size of the municipality has no influence on the status of financial condition of municipality governments in West Java Province. Bandung municipality is the largest city government in West Java Province, but along with Banjar municipality, ranked among the worst performers among municipalities. On the other contrary, Cimahi municipality, which is far smaller than Bandung municipality, achieved the best average financial condition score during the observation period. It, important to note that public sector management, has strong influence on the financial condition of local governments. Good management of government institutions has positive influence on the financial condition of local governments. While such factors as the size and population density of the municipality, may impact on local government financial performance, that may not always apply.

Comparison of the Financial Condition of Districts and Municipalities

Several characteristics distinguish between municipalities and districts including

Figure 3. The trend of Municipal's Good Financial Condition Achievement
Source: Data Analysis

size, population density, human development index and locally generated revenue sources. To that end, one of the objectives of this research is to determine whether or not, characteristics between municipalities and districts have a bearing on difference in the financial condition performance of the two tiers of government. Descriptive statistics of the financial condition scores of municipal and district governments West Java Province are presented in Table 6. During 2013-2016 period, municipal governments registered an average financial condition score of 5.2639, while district governments achieved a higher mean score (6.5833). Thus, based on mean financial condition score, municipal governments performed better than district governments during 2013-2016 period.

With respect to the dispersion or standard deviation of financial condition scores of municipal governments, they registered higher values than those recorded by district governments. The implication is that financial performance of municipal government has a larger dispersion (variance) compared with that of district governments. In light of that, district governments in West Java, show relatively more homogenous financial condition performance compared with municipal governments. To determine whether or not, the difference in the financial condition score between municipal and district governments is statistically significant, the research team conducted an independent t-Test procedure. The results of the Independent t-Test are show in Table 7, indicating less than 0.05 p-value, which affirms that there is indeed significant difference in the financial condition score of the municipal and district governments in West Java Province during 2013-2016 period. Municipal governments registered higher financial performance on average than district government, but also had higher deviation compared with district governments.

Theoretically, financial performance of local governments is influenced by the respective capacity to generate local revenues (Oulasvirta & Turala. 2009; Slack. 2017). Thus, disparity in economic growth among local government is largely as a result of differences on sources of local revenues (Nurpita & Nastiti, 2016; Oulasvirta & Turala, 2009). There is a tendency for investors to prefer investing their capital in local governments that of have good infrastructure facilities such as transportation, electricity networks, telecommunication networks, banks, insurance companies, and skilled labor force (Barika, 2012).

Besides, another contributory factor to the disparity in economic growth among local governments in Indonesia is the uneven distribution of revenues sharing from the central government to regions such as provinces and district/city governments. Fiscal decentralization Indonesia allows local governments to collect local taxes such as property and plants (Nurtanzila & Kumorotomo, 2015). Municipal governments have higher tax collection capacity than district governments due to the existence of property and plant taxes that increase their tax base compared to districts. In a research by Slack (2017) conducted on eight big cities in the world, it found that the financial health of cities city is influenced by the capacity to

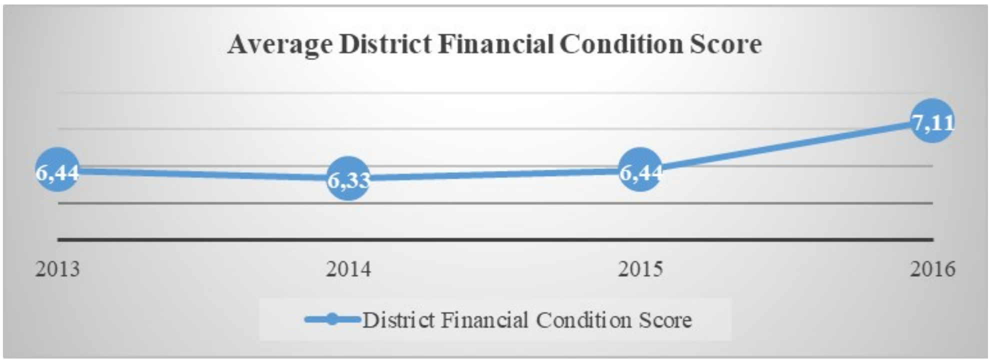

Figure 4. The trend of the District's Average Financial Condition Score

Source: Data Analysis

generate own sources of revenues, which makes them less dependent on central government budget allocation. This is a finding that corroborated Oulasvirta & Turala (2009) that found that in general municipalities generate higher levels of own-source revenues compared to district governments (Oulasvirta & Turala, 2009). Municipalities have a higher diversity and intensity of economic activities such as commercial trading and industrialization that are veritable sources of local revenues from taxes (Cohen et al., 2012). Meanwhile, district governments lack such sources of local revenues due to the dominance of agriculture. Typical economic activities in rural agriculture generally generate less own source revenue due to relatively higher tax exemption of rural economic activities that are mostly based on small farming and small and micro business enterprises.

The average financial condition scores of districts show a decreasing trend during the 2014-2016 period, which may imply that local government autonomy policy in Indonesia may not have significant impact on the financial performance of district governments. This is ironical since one of the goals of local government autonomy is to enhance financial independence of local governments, which is gauged by financial health (Boys et al., 2014). Moreover, research results that indicate poor performance of district governments is in line with previous research conducted by Amazonite (2017) who studied the financial condition of Magelang district (Central Java province). In another study conducted by Afandi and Sianipar (2016) on the financial condition of South Labuhan Batu district found that the local government did not have the capacity to implement fully local government autonomy (Afandi & Sianipar, 2016). Results of a study by Zuhri and Soleh (2016) on the financial performance of Kaur district in Bengkulu Province, also found that the district suffered from high financial dependence on central government revenue transfer due to its poor financial performance. Thus, poor financial performance if district governments is not limited to districts in West Java Province but seems to be a general problem in a number of provinces in Indonesia. The disparity in the financial condition between district and municipal governments have two consequences for public sector administration policy at both the local and central government level. First, specifically, for district governments, more efforts are needed to enhance local revenue sources. Introducing rules and regulations to expand on local government tax base is one of ways to achieve that (Maizunati. 2017). Improving efficiency in tax collection and utilization by public financial managers is another recommended policy action. With respect to the central government, some measures are needed to improve the distribution of funds that are transferred to local governments by increasing the share of central government funds that are allocated to district government that lack sufficient local revenues sources.

The results that show disparity in financial performance across local governments is consistent with previous research

Table 6. Descriptive statistic of Financial Condition Score

Local Government	N	Minimum	Maximum	Mean	Std. Deviation
District	72	2.00	9.00	5.2639	1.28910
Municipal	36	4.00	9.00	6.5833	1.79483

Source: Data Analysis

conducted by Natrini and Ritonga (2017) who assessed financial performance of local governments in Java and Bali. Results of Natrini and Ritonga (2017) established the existence of a tendency for local governments that have similar socio and economic conditions to show disparity in public financial performance (Natrini & Ritonga, 2017). Nurpita and Nastity (2016) found significant difference in economic disparity among district and city governments in Yogyakarta special administrative province due to different Klassen typology of the region. Slack (2017) found disparity in the financial performance of large city governments tends to having similar characteristics. The capacity to general local revenues is the most important factor that behind differences in the financial performance of local governments is (Boys et al., 2014). Nonetheless, to obtain objective results, assessment of local government financial condition should include control variables such as cluster of the respective local government (Maizunati 2017; Natrini & Ritonga. 2017; Ritonga. Clark. & Wickremasinghe. 2013). Disparity in the financial condition between district and municipal governments underscores the need for the central government to adopt budget allocation policy that differs between the two local government types. District government should receive more fiscal stimulus to improve their financial condition, which is why the central government should channel higher budget allocation to them compared to the level that municipal governments receive. Thus, the central government should not use improve on the standard formula it uses to transfer budget allocation by incorporating variables that take into account contextual factors that apply to individual local governments on a case by case basis. In general, local governments that have limited local revenue sources (hence low capacity to exact local taxes and charges) receive higher budget allocation. To that end, monitoring the financial condition of local governments is fundamentally important not only to deepen understanding about their current financial health status but also importantly, as the basis for the central government to improve the level of fairness and equity of budget allocation among local governments.

Results indicate that municipal governments in West Java Province showed better financial performance than other municipal governments. The results may imply that the type of local government, whether it is a district or a municipality influences financial performance. Nonetheless, the most important differentiating factor between districts and municipalities with respect financial performance is the local revenue source capacity, rather than quality of financial management. Municipalities in general, host manufacturing and trading relates activities which are vital sources of tax revenues. Research results are in line with empirical findings by Oulasvirta and Turala (2009) who conducted a study in Poland and Finland. Study results indicated that financial autonomy benefits city governments that already have sufficient capacity to general local revenues, making them achieve autonomous in fiscal sense, from the central government (Oulasvirta & Turala. 2009).

On the contrary, district governments, which are in general associated with agricultural activities do suffer from lower local revenue source capacity, which undermines their effort to achieve fiscal autonomy from the central government. Nonetheless, results of this research do not go as far as saying that characteristics of local governments influence the financial condition score. This is because, to reach that conclusion, requires

Table 7. Results of Independent t-Test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
Equal variances assumed	20.458	.000	-4.381	106	.000	-1.31944	.30116	-1.91653	-.72236
Equal variances not assumed			-3.933	53.625	.000	-1.31944	.33551	-1.99220	-.64669

Source: Data Analysis

including control variables in a model that estimates the financial condition. Nonetheless, the implication of research findings is that disparity in the financial health between districts and municipalities in Indonesia implies full-fledged fiscal decentralization policy in Indonesia may not be the best policy option as it has the potential to widen the disparity not only between districts and municipalities but also among districts and municipalities. Consequently, state intervention is still needed to ensure that the gap between municipalities and districts on one hand, and within districts and municipalities does not grow larger. Beer-Tóth who conducted research on the impact of fiscal decentralization in Hungary argues that central government subsidy, budget allocation, and revenue distribution are required to maintain local government financial stability during the process (Beer-Tóth, 2009). By adopting partial local government autonomy, the central government retains the levers to can take over public sector management and administration in local governments that show signs of financial distress.

CONCLUSION

In conclusion, local governments in West Java Province (municipal and district governments) had good financial health during 2013-2016. Trend analysis shows an upward trend in the financial performance of both district and municipal governments. However, as a distinct group, the financial performance score for districts governments shows a downward trend during the period covered by the research. The implication, that with respect to the number of local governments in West Java Province, that were able to achieve good financial performance showed an upward trend while the financial condition score achieved declined. In general district government underperform municipal government on financial performance. However, municipalities, while register higher financial performance that district governments, showed higher variance.

That said, financial performance of both district and municipal government while showed general improvement during 2013-2016 period, continued to fall below the highest level possible (excellent). Financial performance of district government, compared to municipal governments, is mainly constrained by limited local revenue sources. The decline in the financial performance of district governments reflects an inherent problem that district government ace in raising revenues which in turn hampers their capacity to financial economic development problems. Limited growth and development of local economic potential undermines efforts to expand local tax base (local revenue sources). On the contrary, municipal governments, have the potential to enhance their financial condition level from good to excellent level in the future. This reflected in the average financial condition score that increases continuously during 2013-2016 period.

One of the key factors that contributes to the higher and increasing average financial performance of municipalities compared to districts in West Java Province is the existence of diverse economic activities in the former compared to limited activities in the latter. Municipalities are in general home to manufacturing and commerce activities which are vital sources of tax revenues that contribute to local revenue sources. Meanwhile, districts, in general and home to rural agricultural activities, many of which are exempted from taxation, hence low tax capacity. That said, the financial condition of a local government is not only influenced by level of economic activities, but also a plethora of many other. However internal factors and external factors, which this research did not include in its analysis. To that end, there is need for further empirical research on the determinants of local government's financial condition, including other factors that this research did not include in its analysis.

Results of this research underscore the need for district governments to take extra measures to if they are to improve their financial condition. Such measures include expanding tax base, and empowering rural economic activities by strengthening their performance and contribution to district output, which should increase local revenue sources. Meanwhile, for municipals governments, they have the potential to enhance their financial performance from good to excellent, by among other initiatives improving financial management. In general, the central government should implement policies that reduce the gap in financial performance gap between district and municipal governments by among other policies, revamping budget allocation formula to increase the size that district governments receive compared to the level that municipalities in general receive; and continue its intervention through providing subsidies, revisiting revenue distribution, monitoring the performance of local governments to ensure that those that underperform face recentralization, to avert the problem of financial distress affecting the wellbeing of the citizenry.

Nonetheless, the study has its limitations. This especially so with respect to short period covered (2013-2016), and scope of analysis, which local governments in West Java Province. In light of that, we recommend that future research on financial condition of local governments should include a more exhaustive list of municipalities and districts in several provinces that are located on Java and outside Java. Using another model, could also contribute to enriching research results on determinants of financial conditions in local governments. This study used the Brown's financial condition model, which is an adaptation from the practice in USA. Using another model can help to shed more light on whether similar results are obtained or otherwise, which is another way of strengthening the reliability, validity and generalizability of the empirical results obtained.

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